other access elements purchased by the IXC, including switching and common line, are determined by the end user's choice of local service provider. Thus, the relevant measure of demand elasticity for these access elements is that of the end user, not the interexchange carrier customer. Studies show that demand for local service is quite inelastic.[102]

### 2. High-Capacity Special Access Services Should Not Be Removed From Price Cap Regulation

The Commission asks whether high-capacity special access services should be removed immediately from price cap regulation. Applying the criteria used in the Interexchange Order, it is clear that the Commission should not take this step. Even in areas where a CAP is present, businesses that are not located in buildings served by the CAP cannot easily substitute the CAP's services for the LEC's services. As a result, the LEC could exercise significant market power over customers not on the CAP's network. Removing special access services from price cap and tariff regulation at this time could permit the incumbent LEC to discriminate unreasonably between users. Moreover, any examination of competition in the special access market should be undertaken in a separate proceeding. This would allow the development of the type of comprehensive record that supported the Commission's streamlining of AT&T's services.

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[102] See e.g., Lester D. Taylor, Telecommunications Demand in Theory and Practice, (1994).

## VII. Transition Issues

### A. Separations Reform Belongs in a Separate Proceeding

In this Notice, the Commission seeks comment on the extent to which interstate rates exceed economic costs due to a misallocation of costs to the interstate jurisdiction.[103] While there are no doubt misallocations that result from the existing separations rules, MCI recommends that the Commission consider separations reform independently from access reform, as it has traditionally done.

Jurisdictional separations deals with the allocation of direct and joint and common costs between jurisdictions. There are no generally accepted allocation methods capable of ensuring that rates based on separated costs will settle at the economic costs caused by each jurisdiction. Consequently, it is not correct to portray separations reform as a means to establish more efficient rates. Proceeding with separations reform first, or giving it priority over bringing access charges to cost, is simply a means to delay access charge reform, and deny access charge reductions to end users.

The Commission is currently able to use a proxy cost model to determine the economic cost of unbundled elements, and as explained above, set rates for interstate access services close to economic cost by mirroring the economic cost of unbundled elements. Including separations reform with access charge reform

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[103] Notice at para. 249.

will introduce a greater amount of arbitrariness than would exist if the Commission limited its attention to access charge reform.

The Commission has historically treated separations changes as secondary to other policy issues.[104] Policy changes designed to promote competition have been implemented, and then it becomes necessary to adjust separations to conform to those policy changes.[105] That is how the Commission should presently proceed. By proceeding immediately with access charge reductions, the Commission will permit all interstate access charges to be reduced to economic cost, including the SLC, because it has linked access reform with an open price cap proceeding. This will bring immediate benefits of competition to consumers. If separations reform is completed first, and costs are transferred to the intrastate jurisdiction, it may delay the reform effort unnecessarily and there may not be mechanisms in place in every state that require immediate reduction in local rates.

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104 See, e.g., MTS and WATS Market Structure, CC Docket 78-72, Amendment of Part 67 (New Part 36) of the Commission's Rules and Establishment of a Federal-State Joint Board, CC Dockets 80-286 and 86-297, 2 FCC Rcd 2639, which changed the allocation of switching costs to reflect cost-causation.

105 Id.

### B. Incumbent LECs are Entitled To Recover $1.3 Billion of the $11.6 Billion By Which Their Rates Exceed Economic Costs from their Regulated Customers Once the New Universal Service Fund is Constituted.

In its Notice the Commission raises a variety of issues connected with the recovery of the gap between the economic cost of access and the current amount incumbent LECs are charging their customers. In particular, the Commission asks parties to address the following issues: the amount and make-up of the difference between these amounts, whether recovery of the remaining interstate-allocated costs should be permitted, the lawfulness of a denial of such recovery, and possible recovery mechanisms.[106]

#### 1. The "Gap" is Approximately $11.6 billion.

As presented in Table III-1, price cap LECs interstate access revenue was approximately $21.5 billion in 1996, and the economic cost of that access was approximately $9.9 billion, leaving a gap of $11.6 billion. Incumbent LECs are entitled to continue to recover the universal service subsidy funds currently included in access charges to fund Long Term Support and other interstate universal service mechanisms -- though that $1.3 billion should not be recovered through access charges. Consequently, approximately a $10.3 billion interstate revenue gap remains after removing the interstate share of universal service.

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[106] Notice at para. 248.

### 2. Economic Analysis Does Not Support Permitting Incumbent LECs to Recover But a Small Amount of this $10 billion Gap.

Approximately $1.7 billion of this amount is attributed to incumbent LEC rate of return (13.6%) being 3.6% above the competitive 10% level. Approximately $3.2 billion in revenues is attributed to strategic investment in plant in preparation for LEC entry into video and long distance markets.[107] Research submitted by MCI in the Local Competition Proceeding showed that approximately $.21 billion of the gap can be attributed to under-depreciation.[108] Table V-1 summarizes the sources to which the gap is attributed:

**Table V-1 Sources of the Gap**

| Source | Annual Revenue ($Billion) |
|---|---|
| Universal Service | 1.3 |
| Excess Profits | 1.7 |
| Overbuilt Plant | 3.2 |
| Depreciation Reserve Deficit | .2 |
| Residual/Operational Inefficiencies | 5.2 |
| Total Gap | 11.6 |

Under-depreciation accounts for approximately 2 percent ($.2 billion) of the difference between existing interstate access revenues and the economic

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107 Derived by taking 25% of Hatfield 2.2.2 $12.6 billion estimate of capital carrying cost of overbuilt plant.

108 See, "Depreciation Policy in the Telecommunications Industry," Micra, December 1995, Table 5. Note: 25% of total reserve deficit was used for this calculation.

cost of interstate access services. LECs' claims that Commission-prescribed depreciation rates are too low and have overvalued their assets have not withstood serious scrutiny.[109] The Commission has recognized this point, and only seeks comment on whether there is under-depreciation as a result of a "...decline in the economic value of plant already in service that occurs when the replacement cost is less than the cost of older equipment....some portion of the deployed equipment is arguably under-depreciated by an amount equal to the difference between the current net book value and the forward-looking replacement cost of the depreciable plant."[110] MCI's discussion below shows that if this form of depreciation exists, LECs should be required to recover revenues for this form of under-depreciation from its customers of unregulated businesses.

### 3. Legal and Policy Analysis Does Not Support The Notion That LECs are Entitled to Recover the Difference Between the Current and Historic Value of their Plant.

There is no basis in policy analysis that would justify permitting LECs to recover this form of under-depreciated plant. In competitive markets, firms routinely write off plant made obsolete by more efficient competitors. For the Commission to allow LECs to recover the value of their plant lost by the entry of

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109 Id.

110 Notice at para. 253.

more efficient competitors, would simply indemnify the LECs against all competitive inroads and directly contravene the intent of the 1996 Act.

Neither is there a good argument for permitting LECs to recover this type of under-depreciation for plant purchased prior to the enactment of the 1996 Act, as the Commission inquires at para. 255. LECs have been preparing for entry into new lines of business since the day after divestiture, but certainly since the Commission adopted its price cap regulatory regime for the LECs, largely at the urging of the LECs that they be granted more flexibility to innovate against potential competitors. It strains belief to think LECs have been caught off guard at the possibility of encountering local competitors.[111]

More importantly, as made clear in Sec. IV supra, eliminating the gap is not a taking. Rather, it is an obligation under the Act. The Commission inquires what standard of proof LECs should be required to meet in order to be permitted to recover plant claimed to be under-depreciated. If the Commission permits such proceedings to take place, the burden of proof must be placed on the LECs. LECs should be required to show that: a) they have not already written

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111 "...competition in the local exchange market has not...taken ILECs by surprise, but ....has been contemplated by the ILECs in ongoing investment and construction planning over the past several years...For the RBOCs, 60% of net total plant in service (TPIS) as of the end of 1995 was acquired on or after January 1, 1990." See Analysis of Incumbent LEC Embedded Investment: ATT Attachment in 251, pp 3-4.

the asset in question off of their financial books[112]; b) that the purchase of the asset was prudent by showing that the revenue the company expected to realize from the asset providing regulated services during the first 3 years of its useful life were greater than the cost of the asset; c) that the asset can not be expected to earn revenues during the 3 years following initiation of the under-deprecation proceeding sufficient to cover the amount of claimed under-depreciation.[113]

## VIII. Rate Structure Modifications

### A. General Principles

The Commission seeks comment on several issues related to the access charge rate structure. MCI addresses infra, specific issues raised by the Commission. There are two principles that MCI believes should guide the Commission when it considers the rate structure.

First, the rate structure must reflect the way costs are incurred. This means that traffic sensitive (TS) costs must be recovered by TS rates and non-traffic sensitive (NTS) costs by NTS rates. This also implies that any TS rates must be assessed on the type of demand that is relevant, e.g., per-minute or

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112 Such write-offs show the LEC planned for the loss and was financially able to absorb the loss.

113 A three year revenue test was chosen because the Commission has argued that it is not possible to reliably forecast demand for telecommunications services for a period greater than 3 years, considerably less than the depreciation life of plant. See, Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, CC Docket No. 86-111, Order on Reconsideration, at para. 41.

per-line. However, in some limited cases, it may be impossible to identify what portion of TS costs vary per minute or per call, and thus a single per-minute rate may be reasonable.[114]

This leads to the second consideration that should guide the Commission. Any rate structure must be auditable. The Commission must assure that access customers must be able to verify their access bills. This implies both that access customers should be able to confirm the amount of costs associated with each rate, and should have the information they need to confirm that they are being charged correctly. Without this ability, access customers will be find themselves in the situation of having no choice but to trust the LECs, against whom they soon may be trying to compete.

**B. CCL/SLC**

The Commission tentatively concludes that the current common line rate structure does not reflect the manner in which loop costs are incurred.[115] MCI agrees with this conclusion. The current split of common line into End User Common Line (EUCL) and Carrier Common Line (CCL) rates was adopted when access charges were instituted. Even though the Commission acknowledged that loop costs were non-traffic sensitive (NTS), it retained recovery of part of loop costs through the CCL charge. The recovery of NTS loop costs through

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114 See, e.g., the discussion of local switching costs below.

115 Notice at 58.

usage-sensitive charges does not reflect cost-causation, and should not be continued.

The Commission offers several options for recovery of the NTS loop costs that are currently recovered through CCL charges. One option is to charge a flat, per-line rate to the interexchange carrier (IXC) to whom the line is pre-subscribed. This option has the advantage of being cost-causative, as the per-line cost would be recovered on a per-line basis.

The Commission's other proposed options do not have this feature, and should therefore not be adopted. The proposed "bulk billing" option, where IXCs are charged based on their relative minutes of use, retains the current usage sensitive recovery of NTS costs.[116] The "capacity charge," assessed on carriers based on the number and type of trunks that IXCs purchase from incumbent LECs, is not based on the number of loops that the IXCs use, and would allow those IXCs that pack more loops onto their trunks to avoid paying the cost of the loops they serve. The "trunk port charge" and trunk port and line port charge" options also share this problem.

There are two issues with regard to the per-line charge option that the Commission must address. First, this method would allow companies that use dial-around access to avoid paying for their use of the loop. This could be solved by assessing the TELRIC per-minute cost on each dial-around minute,

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[116] It also would require setting up a third party as administrator to determine IXC market shares, thereby raising administrative costs.

and reducing the loop costs to be recovered in per-line charges by the amount of revenue recovered in these charges. Second, to allow verification of access bills, the LECs must be required to provide the IXCs with a list of ANIs that are pre-subscribed to that IXC.

The Commission also seeks comment on giving rate structure flexibility to the LECs in their recovery of interstate common line costs from IXCs. Specifically, the Commission seeks comment on the effect of the requirements of Section 254(g), that IXCs are required to charge geographically averaged rates, on the ability to give LECs rate structure flexibility in their recovery of interstate common line costs from IXCs. This requirement of the Act, combined with incumbent LEC pricing flexibility, will have a substantial effect on the ability of local competition to discipline access charges.

If competition comes to local service, all LECs will be trying to capture the end user customer. If the LECs have full flexibility to structure their common line charges to IXCs, and to set their rate levels for those charges, they will seek to charge low end user rates to obtain the end user customer, and charge high access rates. If the IXC is able to charge different rates for long distance service to customers who choose the LEC that charges higher access charges, the end user will be required to consider the full cost of his local service provider, and will allow the market to discipline access charges. However, if the IXC is prevented from reflecting the LEC's access charges in its rates, the market cannot control

LEC charges, and the Commission must prohibit geographic deaveraging of access and continue to regulate access rate structure and levels.

The Commission seeks comment on several issues regarding the EUCL. MCI believes that, if the loop costs are determined by economic costs, as they should be, the Commission's proposed increases in the EUCL cap will be moot, as the economic cost of the loop is well below the current cap. However, MCI wishes to make specific comment regarding the question of allowing or requiring the LECs to deaverage EUCL charges.

If the Commission adopts the Joint Board's recommendation in the Universal Service docket, LEC lines will be supported based on the difference between a benchmark rate and the cost of the loop. That being the case, there will be no necessity for the LEC to charge a different EUCL rate for lines whose cost exceeds the benchmark. On the other hand, some EUCL reductions may be justified for those lines that are below the benchmark. Thus, it is highly unlikely that higher EUCL rates need to be charged, because the higher cost loops will be subsidized by the Universal Service Fund. Therefore, deaveraging of the EUCL should be prohibited.

**C. Local Switching**

The Commission seeks comment on the proper local switching rate structure. Currently, LECs charge per-minute rates for local switching. However, the Commission notes, there are some aspects of switch costs that do not vary with usage. The switch consists of line and trunk cards, and a switching system

which connects one line or trunk with another. The line cards, which connect subscriber lines to the switch, are dedicated to an individual subscriber line, and thus do not vary with usage. Similarly, the trunk cards, or ports, which connect interoffice trunks to the switch, are dedicated to individual trunks, and thus do not vary with usage. It is the switching system, which routes calls between trunks and lines, whose cost varies with usage. The Commission seeks comment on the best rate structure for these components.

MCI agrees that, in principle, the line card portion of the switch is, like the loop cost, non-traffic sensitive. In addition, those trunk cards that connect dedicated trunks are also non-traffic sensitive. Trunk cards that connect common transport trunks are traffic sensitive. Given these cost characteristics, it would appear reasonable to recover the costs of these items as the Commission proposes. However, as the Commission notes, identifying the TS and NTS costs separately is not a simple, straight-forward process.

As the Commission recognizes, the NTS and TS costs must be separately identifiable to implement the proposed rate structure. The separate identification of these costs must not be based solely on "special studies" performed by the LECs. These studies will necessarily require allocations of costs, as switches are not priced by their manufacturers in this manner. Identification of the NTS and TS costs of the switch will require data from the switch vendors regarding the cost of the individual parts of the switch. Analyses of this data can be

performed to determine the relative amounts of NTS and TS elements of the switch.[117]

The Commission has considered the traffic-sensitive nature of switching costs in the past. Based on the Joint Board's recommendation in CC Docket 80-286, the Commission dropped the distinction in separations between non-traffic sensitive and traffic sensitive costs of Category 6 Central Office Equipment.[118] The Joint Board and Commission determined that changing switching technology, especially the introduction of digital switching systems, rendered the distinction between NTS and TS costs difficult to calculate and justify.[119] Given the age of the then-existing studies allocating cost, the Joint Board recommended that the distinction be dropped for purposes of separations.

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117 It is unlikely that one can simply take the list price for additional line cards, for example, and use that as the NTS cost of the switch. While additional line cards can be added to a switch, the total line card cost of an individual switch is not simply this price multiplied by the number of line cards, because the initial switch is sold as a package with a certain number of line cards already included. Thus, the list prices can be used only to determine relative costs of the parts of the switch. Those proportions must then be applied to the total cost of the switch. MCI believes that the cost of digital switches is currently about 70 percent NTS.

118 Category 6 COE was dial central office switching equipment other than toll and tandem switches.

119 See, Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Recommended Decision and Order, CC Docket No. 80-286, 2 FCC Rcd 2551, 2558, at para 45. This separations treatment was carried over into the current Part 36 separations rules.

Since it would be theoretically ideal to implement a rate structure such as the Commission proposes for local switching, the Commission should adopt its proposed structure, as long as the cost studies allocating cost between TS and NTS can be easily performed. The Commission should adopt the methodology described supra, and examine very closely the studies provided by the LECs. These studies must be performed on the public record, to allow all parties opportunity effectively to examine the basis for the allocation of costs.

The Commission also asks whether the TS portion of the local switch should be recovered in per-call or per-call attempt charges rather than per-minute charges. Even if the TS portion of a switch can be identified, it is not clear what part of the TS portion of a switch is sensitive to call attempts and what part is sensitive to minutes. The central processor of a switch is only engaged when the call is attempted. However, there is a physical connection within the switch, between the lines and trunks, which is in use every minute of the call. Therefore, for the TS portion of the switch, there is some portion which may be sensitive to the number of calls, the central processor, and some portion which may be sensitive to the number of minutes, the switching matrix. Dividing the TS portion of the switch into those two pieces might require arbitrary assumptions. Only if the costs of the central processor and the switching matrix can be separately identified should the Commission adopt this rate structure. Given all of these problems, it is not clear that the TS portion of the charge for local switching should be changed from its current per-minute rate structure.

If the Commission does adopt a per-call rate element, it should be assessed only on calls, not call attempts. If the LECs are able to charge for every call attempt, they will be compensated even if their switches are blocking calls. Thus, the LEC will have less incentive to ensure that its network is providing quality service. For this reason, the current structure, which assesses access charges only once the IXC notifies the LEC's switch that it has received the call, should be continued.

The Commission asks whether LECs should be allowed to assess different peak and off-peak rates. As the Commission correctly notes, the same arguments that militated against such a structure for interconnection rates apply to access charges. It is unclear what the peak period is, or that the peak does not vary from office to office or from day to day. Thus, allowing peak/off-peak pricing would likely be very difficult to audit and verify that the correct periods were being rated as the peak period. In addition, charging higher prices during peak times may cause usage to adjust so that a different time becomes the peak, and new services may cause the peak usage time to shift. Finally, if switches are designed to handle loads during the peak time, the majority of that load is likely to be local calls. Thus, local calls may be the primary source of the higher usage, and should bear a higher portion of switching costs than is currently permitted. If high usage at a particular time justifies charging a higher interstate access rate, then it also justifies allocating more of the cost to services that cause the higher usage.

Finally, as discussed supra, any rate structure the LECs are allowed must be auditable. Line cards, because they are associated with local loops, require the same information, i.e., Automatic Number Identification (ANI), to be passed to the IXC by the LEC. Without this information, the IXC cannot verify that an access bill is correct.

**D. Transport**

The Commission proposes to adopt a three-part transport rate structure: (1) charges for entrance facilities, the connection between an IXCs Point of Presence and the LEC Serving Wire Center; (2) charges for direct-trunked transport services, the connection between the LEC Serving Wire Center and an End Office; and (3) charges for tandem-switched transport service. For the first two of these, the Commission proposes to mandate flat-rated charges. Since these two types of facilities are dedicated to a single user, MCI agrees that this is the proper rate structure, but only if the Commission also retains the current per-mile structure of these charges and the LEC is not permitted to charge carrier-specific rates. Otherwise, the LEC can set rates which will favor one access customer over another.

The Commission also asks if incumbent LECs should be allowed to offer transport services at different rates based on whether the LEC or the IXC is responsible for channel facility assignment (CFA). The Commission should not allow a rate differential such as that requested in the Ameritech and Bell Atlantic

petitions cited by the Commission.[120] First, it is not clear what the cost difference between these two options is. The LECs claim that there are network savings that their control of CFA make possible. However, IXC provision of CFA should save the LEC the cost of performing the CFA. Which of these two effects is larger, and thus whether the rate should be higher or lower if the IXC performs the CFA, is not certain. In addition, if the LEC gets into the interexchange market, it could provide the CFA to its long-distance subsidiary, and would be able to impute to itself a lower transport charge. Thus, by doing nothing other than assigning its personnel to a different part of the same company, the LEC could lower its interexchange access costs.

Regarding tandem switching, the Commission proposes the same rate structure options as for local switching. MCI agrees that there is no substantial difference between tandem switches and end office switches, and that the two should have the same rate structure. As discussed above for local switching, on balance it is probably most reasonable to institute NTS and TS charges, with the TS charge being a per-minute switching charge, with no peak/off-peak pricing.

The Commission seeks comment on two options for tandem-switched transport. The first option would maintain the current interim rate structure,

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120 Ameritech Operating Companies Petition for Waiver of Part 69.112 of the Commission's Rules to Provide Bulk Capacity Transport (filed April 14, 1993); Bell Atlantic Telephone Companies Petition for Waiver of Part 69.112(b) and (c) of the Commission's Rules to Offer Facilities Management Service (filed April 4, 1994).

which gives IXCs two choices. The first choice is to pay a single usage-sensitive charge with distance measured in airline miles from the Serving Wire Center (SWC) to the end office. The second choice is for the IXC to pay a flat-rated charge for a dedicated facility from the SWC to the tandem office, and a usage-sensitive charge for tandem-switched transport from the tandem office to the end office. The Commission's second option would simply mandate the second choice for all IXCs.

The Commission should not eliminate the choice. Dedicated transport services are priced based on airline mileage, regardless of the physical routing of the facility. Tandem switched transport should also be priced in that manner. Keeping the option will increase efficiency by allowing the IXC to use the network configuration which is optimal for its traffic.

**E. TIC**

The TIC is a per-minute charge assessed on all switched access minutes. It was designed originally as a "make-whole" rate, to recover the difference between the LECs' special access transport rates and the previous switched transport rates, when the switched transport rates were restructured. When it was adopted, the Commission announced that it intended to phase out the charge. It now seeks comments on ways to phase out this charge.

It is unclear what legitimate costs, if any, are reflected in the TIC. As discussed supra, MCI believes that the Commission should set all access rates based on economic cost. If it does so, the TIC will not be necessary. There is

no reason to retain the TIC in the rate structure. Once the costs of all access elements have been determined, the rates for those elements should be set to recover the costs, and no TIC is necessary.

**F. SS7 Signaling**

The Commission proposes to revise the SS7 rate structure to reflect the structure in a previously granted waiver to Ameritech. MCI believes that the waiver structure can be more cost-based, and does not object to its adoption. Comments on specific issues are below.

The first element in the proposed rate structure is the Signal Link, a dedicated network access line (DNAL) between an SS7 customer's network and the dedicated port on the LEC's STP. As the Commission notes, these links are dedicated to the use of one carrier, and thus their costs should be recovered through a flat-rated distance sensitive charge. Because this link is used to determine the path for switched transport, and will likely face the same potential for competitive provision of service as does the underlying transport service, this rate element can remain in the relevant transport service categories in the trunking basket.

The STP Port Termination is a port on the local STP, which is dedicated to one customer. Therefore, its costs can be recovered through a flat-rated charge. Because there cannot be competitive provision of these port terminations -- everyone must use the LECs' STPs -- these rate elements should either be removed from price caps altogether, with any rates set for this element

requiring a cost showing, or they should be placed in the traffic sensitive basket in their own service category.

The Signal Transport element recovers the cost of the circuits that carry queries between STPs, switches, and SCPs. As the Commission notes, many users will employ these circuits, so a per-query charge is the most appropriate rate structure. This rate element should be placed in the trunking basket, in a separate service category from the signal link. Because signal link can be performed by other carriers, while signal transport must be performed by the LEC, these two services will face different levels of competition. Services facing different levels of competition should not be placed in the same basket, because the LEC will be able to lower the rate of the competitive service and raise the rate of the less competitive service.

The Signal Switching rate element recovers the cost of switching by the STP, which may involve multiple instances of switching for each call. Thus, this rate should be a per-messages charge. The Commission should not allow peak load pricing, for the same reasons discussed above regarding local switching. Because there cannot be competitive provision of this rate element, just as for port terminations, these rate elements should either be removed from price caps altogether, with any rates set for this element requiring a cost showing, or they should be placed in the traffic sensitive basket in the same category as STP port terminations.

The Commission should not mandate or permit different rates for ISDN User Part (ISUP) and Transaction Capabilities Application Part (TCAP) messages solely because these two types of messages are likely to be of different lengths. It is not clear that LECs could monitor the length of these messages, or that SS7 customers could easily verify that they had been billed correctly. Thus, no rate differential for different length messages is justified at this time.

If the Commission allows or mandates this new SS7 rate structure, the new elements should be required to meet a new services test rather than simply meeting the current rate restructure rules under price caps. These different elements will face different competitive pressures, and thus the LECs will have the incentive to price the more competitive services low and raise the rates for the less competitive services.

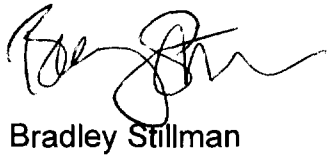
MCI also agrees with the Commission that the cost of metering usage under the new SS7 structure should not be given exogenous treatment. Since the cost of billing for services offered is a normal cost of doing business, these

[redacted]

## IX. Conclusion

Wherefore, MCI urges the Commission to continue on the path toward vigorous local competition and the preservation of universal service by using the mechanisms outlined in these comments to bring access charges down to cost immediately. Such a policy is the only way to deliver just and reasonable access rates. MCI further believes that the so-called market based approach outlined in the Notice is fundamentally flawed and will harm end users by maintaining inflated, uneconomic subsidies in access charges while undermining the development of local competition.

Respectfully submitted,



Bradley Stillman
Don Sussman
Chris Frentrup
Alan Buzacott
Larry Fenster
MCI Communications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

January 29, 1997

**ATTACHMENT : KWOKA AFFIDAVIT**

# STATEMENT ON LEC PRICE CAP REFORM

**JOHN E. KWOKA, JR.**

**PROFESSOR OF ECONOMICS**

**GEORGE WASHINGTON UNIVERSITY**

**January 1997**

In its Notice of Proposed Rulemaking, the Federal Communications Commission has embarked upon a critical review of price caps for Local Exchange Carriers.[1] This review is critical for all parties--incumbent local exchange carriers, their new rivals, interexchange carriers that are now their customers and soon may find the LECs to be competitors in long distance, as well as residential and business customers that purchase telecommunications services. The timing of this review is also critical. It is part of the deregulatory process mandated by the Telecommunications Act of 1996 and also an integral part of the LEC price cap plan set out in 1991. As technology and private

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[1] *Price Cap Performance Review NPRM*, CC Docket No. 94-1, December 23, 1996